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## CHARTER OF THE BOARD RISK COMMITTEE

### 1. Purpose

A Board Risk Committee (“**Committee**”), of the Board of Directors (“**Board**”) of the Business Development Bank of Canada (“**BDC**”) is established to assist the Board in overseeing the risk management framework and monitoring BDC’s Risk Profile, BDC’s performance against the framework, major risk exposures and important strategic initiatives as well as to adjudicate transactions above the delegation of management.

### 2. Composition and Operation

#### 2.1 Composition of Committee

The Committee shall be composed of a minimum of three directors (“**Members**”) as the Board may appoint, one of whom shall be appointed by the Board as Chairperson of the Committee (“**Chairperson**”). If the position of Chairperson is vacant or if the Chairperson is absent or unable to act, the Chairperson of the Board may designate or the Committee may elect an Acting Chairperson for the meeting. Each Member of the Committee shall be appointed by the Board (having taken into consideration the recommendation of the Governance/Nominating Committee) to hold office on the Committee until such time as a successor is appointed, unless the Member resigns, is removed, or ceases to be a director;

Each Member of the Committee shall be financially literate as defined in the Terms of Reference for the Audit and Conduct Committee and all Members shall, to the extent possible, have relevant risk management experience or acquire it shortly after appointment to the Committee. All Committee Members are independent from management.

#### 2.2 Operation of the Committee

For the purposes of carrying out its duties or any that are referred to it by the Board and to investigate any matter brought to its attention, the Committee shall have access to all books, records and personnel of the Bank, and may engage legal counsel, consultants or other advisors on terms and conditions that the Committee deems reasonably appropriate (including reasonable fees).

#### 2.3 Meetings

The Committee shall meet at the call of its Chairperson at least quarterly and may be called by any Member of the Committee or the Chairperson of the Board.

For the transaction of its business, three Members of the Committee shall constitute the quorum (“**Quorum**”). If a quorum cannot be obtained, Members who qualify as Committee Members may, at the request of the Committee Chair, serve as Committee Members for that meeting.

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Matters presented to the Committee for decision at any meeting shall be decided by a majority of votes. In the case of an equality of votes at a meeting of the Committee, the Chairperson shall, in addition to the Chairperson's original vote, have the deciding vote.

BDC's Corporate Secretary, or, in his or her absence, one of the Assistant Corporate Secretaries, shall be Secretary to the Committee ("Secretary").

The Secretary shall give notice of Committee meetings to Committee Members and the Chairperson of the Board.

Minutes of the Committee meetings shall be prepared by the Secretary, who shall, subsequent to Committee's approval, keep them in a book of minutes.

The President and CEO ("**CEO**") and the Chief Risk Officer ("**CRO**") may attend Committee meetings and, upon the Committee's request, any other officer or employee of BDC or any special advisor may attend Committee meetings to assist and advise the Committee as required.

The Committee shall regularly hold *in camera* sessions with Committee Members only, with the CEO, with the CRO, and, as needed, with members of management or special advisors.

The Committee and the Audit and Conduct Committee shall meet periodically and strive to have cross-membership.

The Committee shall report to the Board on its activities, findings and recommendations at the first meeting of the Board following each Committee meeting.

## 2.4 Governance of the Committee

The Committee shall annually:

- 2.4.1 outline a schedule of activities and the annual agenda for its meetings. The Committee shall confirm that all responsibilities outlined in this Charter and the annual agenda have been carried out. Any other matters that arise from time to time will be added to the agenda on an *ad hoc* basis;
- 2.4.2 assess its performance against this Charter and provide the results and make recommendations to the Governance/Nominating Committee; and
- 2.4.3 assess this Charter and evaluate its mandate to ensure that the Charter reflects best practices and is relevant to BDC's business and associated risks and shall make recommendations to the Governance/Nominating Committee with respect to any proposed modifications; and
- 2.4.4 approve any administrative changes to this Charter throughout the year, provided that such administrative changes are aggregated once per year for review and concurrence by the Board.

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### 3. Responsibilities and Duties

#### 3.1 Risk Management Framework

The Committee shall:

- 3.1.1 Review and recommend to the Board all strategies with respect to the material financial offerings of BDC, other than investment activities as defined in the Terms of Reference for the Board Investment Committee, with a particular focus on risk-related discussions, both for specific risks and in the aggregate and review the alignment of BDC's strategy with the Risk Management Framework;
- 3.1.2 review and recommend to the Board for approval the Risk Management Framework;
- 3.1.3 approve the Risk Appetite Statement and oversee the Bank's Risk Culture, Risk Profile and performance against the Risk Appetite Statement;
- 3.1.4 review and approve the framework for the assessment and approval of new products and services, including the ongoing monitoring, reporting and oversight requirements, other than for investments which are reviewed by the Board Investment Committee;
- 3.1.5 ensure that BDC's material financial, business and operational risks are identified and controls and processes are in place to manage them to secure the sustainability of BDC's activities, including but not limited to: portfolio risk, credit and investment risk, capital management and allocation, legal and regulatory compliance, treasury risk, balance sheet and liquidity risk, insurance, business continuity and market, strategic and reputational risks, information technology risks, as well as regularly assess the effectiveness of such controls;
- 3.1.6 approve an operational risk framework that defines the nature, types and levels of operational risk that BDC undertakes within the Risk Management Framework; and
- 3.1.7 communicate with and take input from the other Committees with respect to risk for which they have primary oversight in their area of responsibility and expertise;
- 3.1.8 review the provisioning methodology for credit losses and adequacy of the Bank's provision for credit losses;
- 3.1.9 approve the Bank's risk-based capital requirements and management's evaluation of the effectiveness of the Bank's internal capital adequacy assessment process ("ICAAP") for determining these requirements; and

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3.1.10 oversee BDC's business continuity planning including a resolution plan in the event of a financial crisis;

3.1.11 regularly review the Bank's risk management performance and obtain reasonable assurance from the CRO that the Bank's risk management policies for significant risks are being adhered to.

### 3.2 Role of the Chief Risk Officer

The CRO is a member of Senior Management, is independent from other executive functions, has no line of business responsibilities and reports to the President and CEO with a dotted line to the Board Risk Committee. She/he is responsible for developing the Risk Appetite Framework and is involved in key decision-making processes from a risk perspective, including strategic planning, new product or services approvals and capital and liquidity management. This includes:

3.2.1 Executing on her/his mandate;

3.2.2 recommending the Risk Limits to the Committee and reporting regularly to the Committee on the performance of the Bank against such Risk Limits;

3.2.3 ensuring the effectiveness of the stress-testing procedures and reporting to the Committee regularly on same.

### 3.3 Management of the Chief Risk Officer and Risk Oversight Functions

The Committee is responsible, after reviewing recommendations from the CEO, to:

3.3.1 recommend to the Human Resources Committee the appointment, removal and succession planning of the CRO;

3.3.2 review and approve annually the mandate and performance objectives of the CRO and the design and organizational structure of BDC's Risk Oversight Functions;

3.3.3 review the performance of the CRO against her/his mandate and provide an assessment to the Human Resources Committee;

3.3.4 ensure that the CRO and the Risk Oversight functions are effective control functions with adequate resources and budget. The Committee shall do an annual review of the design and organizational structure of the Risk Oversight Functions with respect to their effectiveness and controls;

3.3.5 follow-up on issues raised by the CRO and the Risk Oversight Functions to ensure they are properly addressed;

3.3.6 provide risk in-put into firm-wide compensation decisions to ensure compensation incentives are aligned with the Bank's Risk Appetite Statement and industry standards.

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### 3.4 Policies

The Committee shall review annually and recommend to the Board for approval the Policies to ensure that they adequately address and manage the material risks to which the Bank is exposed, which policies are listed at Appendix A, Board Risk Committee Policies, and take input from other Committees with respect to the Policies that fall within their area of expertise;

### 3.5 Monitoring and Reports

The Committee shall review reports on:

3.5.1 BDC's Risk Profile, stress testing processes, including the stress testing methodology material risks related to BDC's business and operations, strategic and emerging risks and issues, and compliance with BDC's Risk Limits and policies, including but not limited to, reports on enterprise risk management, portfolio risk management, capital management and adequacy, liquidity risk, IT risk, including the process to identify, measure and report risks that should be quantified for capital purposes, risk tolerance and treasury risk management;

3.5.2 any exceptions to the Risk Appetite Statement and policies, how material exceptions to policies and controls are identified, monitored, measured and controlled, and remedial actions for material breaches of policies or controls;

3.5.3 the attestations of Senior Management of compliance with the Risk Appetite Statement and Policies;

### 3.6 Delegation of Authority

The Committee shall review on an annual basis and recommend for approval to the Board, the Delegation of Authority Policy with respect to delegations to the Committee and senior management for loans, guarantees, securitizations, investments and consulting activities. The Board Risk Committee shall approve the Delegations of Authority after consultation with the other committees.

### 3.7 Transaction Approval

The Committee shall approve transactions related to loans, guarantees and securitization transactions that exceed the delegation of authority of senior management and review and recommend to the Board those that exceed its own delegation of authority. The Board Risk Committee may approve transactions in which a Board Member has declared an interest and report such transactions to the Board.



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## Appendix A

### Board Risk Committee Policies

Credit Risk Management Policy

Enterprise Risk Policy

Operational Risk Policy

Treasury Risk Policy

Risk Appetite Statement

Delegation of Authority Policy

Policy on the Environment

Business Continuity Plan

## Appendix B

### Glossary

**Risk Management Framework** means the policies and processes that establish and monitor adherence to the firm's risk appetite;

**Risk Appetite Statement** means the outline of the aggregate levels and types of risk a firm is willing to accept to achieve its business objectives;

**Risk Culture** means the Bank's attitude and approach towards risk;

**Risk Limits** means the allocation of the Bank's Risk Appetite Statement to:

- specific risk categories (e.g., credit, market, liquidity, operational);
- the business unit or platform level (e.g., retail, capital markets);
- lines of business or product level (e.g., concentration limits, value-at-risk limits; and
- other levels as appropriate.

**Risk Profile** means a point in time assessment of the bank's risk exposures.